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From: Oleg Seydak [oleg@blackmoonfg.com]
Sent: 06/06/2018 08:58:39
To: Ilya Perekopsky [perekopsky@telegram.org]
Subject: Fwd: Price stabilisation as a common practice

Dear Ilya, following up on your request about price stabilisation mechanics, please, find below the following information.

I. Practice in fiat markets' IPOs

Price stabilisation arrangements are common practice for the IPOs at such exchanges as NYSE or NASDAQ. The issuers hire a designated **stabilisation agent** for that purpose. The obligations of such agents include:
1. Provide liquidity to avoid strong market movements, that is be a market maker.
2. Buying out the stock if the price goes down below a certain predefined level.

In addition to hiring such an agent having an **over-allotment option** in an IPO prospectus is also a common practice. An important feature of this option is the fact that it is SEC-permitted and risk-free way for the underwriter to stabilise the price. This option allows the underwriters to short-sell the shares at the offering price.

In a nutshell these two practices work as follows:
If the price **goes up** too much, the stabilisation agent **sells additional shares** to those willing to buy and thus mitigates the scarcity and caps the momentum.
If the price **goes down** too much, the stabilisation agent **buys existing shares** from those willing to sell and thus creates scarcity and caps the momentum.

To do the former the stabilisation agent needs to have inventory of shares, to do the latter to have inventory of cash.

Below is the opinion of SEC (release No. 34-38067, p.81)
Although stabilization is a price-influencing activity intended to induce others to purchase the offered security, when appropriately regulated it is ***an effective mechanism*** *for fostering an orderly distribution of securities and* ***promotes the interests of shareholders****, underwriters, and issuers.*

Useful links:
1. About stabilisation agents and over-allotment options.
2. SEC about over-allotment options.
3. The companies that used these arrangements: Dropbox (page 7), Alibaba (page 12).

II. Practice in fiat markets': designated market makers

The stabilisation agents that were mentioned in a previous section naturally evolve into designated market makers (shorthand DMM). DMMs are hired to **increase liquidity** and **control volatility** for the already listed stocks.
DMMs are assigned shares to their inventory with a mandate to set buy and sell orders in the market, thus creating a necessary depth of the market. That is sufficient supply and demand to accommodate harsh market movements.

Useful links:
1. New York Stock Exchange (NYSE) names DMMs a cornerstone of the market model.
2. Investopedia explains DMMs.

III. Practice in crypto markets': price stabilisation and market making

Cryptocurrency markets are no different from fiat markets in this regard and the same arrangements are in place to facilitate liquidity and control volatility at the time of both **listing at the exchange** and the **subsequent trading**. Here is some color on that.

1. As you may know our employee Moshe Joshua together with his group was the first market maker hired by Ripple (XRP). Hopefully if his NDA allows that or he gets a permission from Ripple, he could share his contract details.
2. Satis Group, a NY and SF based company, does the underwriting and book building for the ICOs.
3. Fingen, an Israeli based company, offers market making services using robots.
4. RenGen was hired to be a liquidity provider and market maker for Cryptyk token offering.

IV. Recap

Price stabilisation arrangements are widely spread in the cryptocurrency space. These arrangements are inherited from the classic fiat markets where price stabilisation is a common practice. In fact NYSE called Designated Market Makers a cornerstone of the market.

In order to **control volatility** and **increase liquidity** issuers employ special companies that

1. **Buy the asset** from the market should the price fall below certain level. To do that the designated company uses cash inventory provided by the issuer in form of money or the asset that it is over-alloted and allowed to sell short or the combination of both.

2. **Sell the asset** in the market should the price go up too much. To do that the designated company uses asset inventory provided by the issuer.

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Best regards,

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